Pennsylvania, New Jersey, Delaware, & West Virginia

PHILADELPHIA MULTIFAMILY HOUSING HUB NEWS

Vol. 2 No. 2 **Encarnacion Loukatos, Hub Director** **Thomas Langston, Editor** **November 2002**

Inside this issue:

Internet Inspection Reports

As of October 15, 2002, the Office of Housing made physical inspection reports available to owners on-line. Owners and their representatives may retrieve their released inspection reports directly from HUD's Secure Systems. The Internet address (URL) is http://www.hud.gov/reac. Access to Secure Systems is through this site, and all Users must be authorized access by their respective owners and by HUD. To gain access, an owner's representative applies as either a Coordinator (limit two) or as a regular User (no limit to the number or persons who may register as Users). Application for access in either case is made via the Internet. To apply for authorization, the candidate Coordinator or User must visit the Real Estate Assessment Center (REAC) website cited above. A Coordinator candidate should contact their Business Partner (property owner) in about a week to confirm a successful registration. A regular User candidate should contact their Coordinator to inform them that their registration is complete. The Coordinator can find and provide the User with his User's ID and make access assignments of roles and actions the next day after the registration. After your Coordinator assigns the access privileges, the regular User can log in and begin work. If you require assistance, please call the REAC Technical Assistance Center at: 1-888-245-4860.

Secretary Martinez's MBAA Remarks

In his October 22, 2002 speech at the 89th Annual Convention of the Mortgage Bankers Association of America, Secretary Martinez stated that "Following the terrorist attacks of Sept. 11, 2001, primary insurance companies began excluding or limiting coverage for acts of terrorism in catastrophic loss insurance policies, including policies that cover multifamily properties. Where such coverage is available, costs are exorbitant, terms are restrictive, and coverage limits are low. This insurance, which was not required prior to September 11, 2001, could cost a typical 100-unit project owner an additional $5,000 annually, presenting financial constraints for existing properties and discouraging the construction of new properties. In the months following Sept. 11, the MBAA, among other industry organizations, asked HUD to clarify its position on terrorism insurance. In response, the Secretary announced that in the event of an act of terrorism which destroys or partially destroys an FHA-insured multifamily property, HUD would pay the partial or full claim to the lender. This new policy will reduce costs for existing and future FHA-insured multifamily properties, and encourage the construction of new projects. At a time when affordable housing is difficult to find in certain pockets around the country, this is an important step in ensuring more options for renters and continuing economic growth in our country. In FY 2001, FHA committed $1.5 billion toward insuring multifamily programs for construction and rehabilitation. In 2002, FHA upped its commitment to $2.8 billion.

Tax Credit Study

A recent study by Ernst & Young, "Understanding the Dynamics: A Comprehensive Look at Affordable Housing Tax Credit Properties," concluded that the "market continues to enjoy, by far, the lowest foreclosure rates and delivers solid performance to its investors." Because the stock of affordable housing is expanding less than 80,000 units per year, the strong demand makes this sector of the apartment market almost recession-proof. In over 7,800 properties (500,000 units) evaluated, only .14% had undergone foreclosure since the program's inception, for an annual rate of .01%. This compares favorably to other real estate where annual foreclosure rates range from .4% to 2%. The study also found that the average housing tax credit property is reporting a solid 94% occupancy, a 1.35 debt service coverage ratio, and $345 per unit cash flow per year.

Affordable Housing Crisis in New Jersey

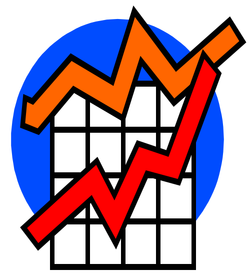
There exists an acute shortage of affordable housing in New Jersey, a state that has the second highest monthly rental costs in the nation at an average of $929 for a 2-BR apartment. Kevin Walsh, a staff attorney with the Fair Share Housing Center, succinctly summarized the problem by saying, "overall, the need for affordable housing is increasing while the availability of affordable housing is decreasing." This assessment was supported by data compiled by New Jersey's Council on Affordable Housing which identified a need for 77,000 new affordable units, between 1987-1999, including the rehabilitation of 40,000 units. Advocates are concerned that due to the high cost of rental housing, families who lose their apartments, or the very poor in decaying urban areas, will be forced to live in temporary shelters or motels. They hope to resolve the issue of lowering the rate of affordability through litigation. (Note: About 450 families are presently being housed by the state in motels, without stoves or refrigerators, at a total cost of $22,500 per day).

New Fair Market Rents

See www.huduser.org/datasets/fmr.html

Housing Market Conditions

Housing market conditions have shown a wide divergence within the Philadelphia Hub over the 6 months, since January 2002. Illustrative of this is the fact that multifamily building permit activity in the New York/New Jersey region increased 15% over the same period in 2001 (15,031 units), while it declined 14% in the Mid-Atlantic region (11,561 units).



Locally, however, in the Philadelphia metropolitan area, multifamily building permit activity was down less than 6%. From 1997 through 2001, permit activity averaged approximately 2,800 annually. A significant portion of Philadelphia's development occurred in its Center City area and adjacent neighborhoods, where former office and factory buildings were converted to luxury apartments. In recent years these conversions have added approximately 1,500 units to the market. In addition, approximately 1,000 units are currently in lease-up or under construction. Another 700 units are in various stages of planning and may be completed within the next 3 years. Despite developers' difficulties locating zoned land and obtaining local approvals, approximately 2,300 units are in the pipeline in the Pennsylvania suburbs, and another 1,100 units are in the suburban New Jersey pipeline. The Philadelphia metropolitan rental market is currently balanced but has become more competitive recently. Apartment vacancy rates remain low in both Center City and the suburbs but have increased slightly over the past year as new units enter the market. New luxury apartments in Center City are absorbing units at a slower pace than a year ago. Rents are flat throughout the metropolitan area, and high-end apartments in both Center City and the suburbs are beginning to offer concessions. The complete market analyses can be read by accessing the following websites: *U.S. Housing Market Conditions Report-* http://www.huduser.org/periodicals/ushmc/summer02/index.html. The Mid-Atlantic summary of economic conditions can be found at: http://www.huduser.org/periodicals/ushmc/summer02/mid_atl.html. The Philadelphia "*Spotlight*" is at: http://www.huduser.org/periodicals/ushmc/summer02/pa.html.

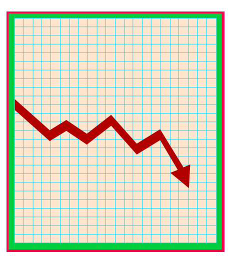
EPA Website for Mold Remediation Information

www.epa.gov/iaq/molds/toc.html

Revised Operating Cost Standards

HUD Notice H 2002-18 lists the FY 2002 Annual Operating Cost Standards (OCS) for Section 202 and Section 811 Housing. The OCS will be used to calculate the annual per person/per unit amount of a PRAC (Project Rental Assistance Contract). Updates were based on the National Consumer Price Index of housing changes for 2001. Flexibility to raise the OCS is allowed in certain high-cost areas: Philadelphia, New York, Atlanta, Chicago, Los Angeles, San Francisco, and Seattle. The Notice states that "The term of the PRAC is reduced from 20 years to a minimum term of 5 years. The Department anticipates that, at the end of the contract terms, renewals will be approved subject to the availability of funds. In addition to this provision, the Department will reserve PRAC funds based on 75 percent rather than 100 percent of the current OCS for approved units in order to take into account the average tenant contribution toward rent." (The Notice can be found in HUDCLIPS at: www.hudclips.org/cgi/index.cgi.

Evaluation of Market Movement



Legg Mason, in its August 2002 Real Estate Market Cycle Monitor, stated that "weak job growth continued to put pressure on apartment performance" during the second quarter of 2002. Although demographic trends remain favorable, "continued delays in job growth recovery could result in worsening conditions, particularly in light of continued construction." The analysis cited Philadelphia, northern New Jersey an Pittsburgh as being in a "recession." with high supply growth, low to negative demand, slow construction starts, and negative rent growth. It is expected, however, that a rebound in job growth will result in a recovery for the real estate market and a "return to moderate rental growth."

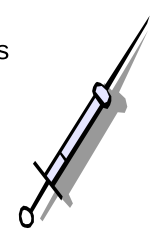
Inter-Agency Agreement Signed

HUD, the Dept. of Energy, and the EPA have signed an agreement to promote the use of EPA's Energy Star program in HUD's affordable housing programs, including public housing and privately owned assisted housing. The program encourages energy conservation by identifying energy-efficient appliances, equipment, and buildings.

GAO Study of Mark-to-Market Properties at Risk

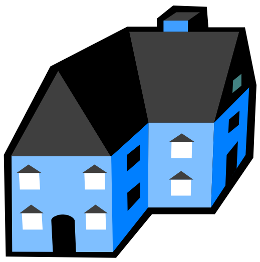
On September 6, the General Accounting Office (GAO) issued a study of Mark-to-Market properties on the "watch-list" of HUD's Office of Multifamily Housing Assistance Restructuring (OMHAR). OMHAR places properties on the watch-list because they have had their rents reduced under the Mark-to-Market program but have not had their mortgages restructured, out of concern that these properties do not have sufficient cash flow to cover their debt service and operating costs. Senators Paul Sarbanes (D-MD), Jack Reed (D-RI), and Wayne Allard (R-CO) had asked GAO to evaluate HUD's oversight of these watch-list properties. GAO noted that 211 properties have been placed on the watch-list. Of these, 177 properties were added to the list because the owners elected not to have their mortgage restructured despite OMHAR's recommendation otherwise; 31 were not financially viable for restructuring; and 3 properties were ineligible for restructuring because of owner disqualification. GAO noted that while 87% of the watch-list properties received satisfactory inspection marks, 41% of those properties had not been inspected since being placed on the watch-list, as some properties are not inspected again for three years after a satisfactory inspection. GAO also found that 62% of the watch-list properties show signs of potential financial risk, with nearly half lacking the income to cover their mortgage payments. Due to the risky financial and physical circumstances of the watch-list properties, guidance was issued in September 2001 for monitoring of these properties. GAO also included case studies of six watch-list properties in its report. The entire report can be read at: www.gao.gov/new.items/d02953.pdf.

Tenant Screening for Drug Abuse and Sex Offenders



Notice H 2002-22, Screening of Tenants for Drug Abuse and Other Criminal Activity, was issued on 10/29/02. It provides guidance in administering the Final Rule published in Federal Register Vol. 66, No. 101, on 5/24/01. Specifically, it provides mandatory provisions for owners to incorporate into their screening and admissions policies, as well as their leases. It also discusses the performance of background checks of criminal records by the owner, and the option of paying the local PHA for this service. You can view this notice at the following HUD website under "2002 Housing Notices": http://www.hudclips.org/cgi/index.cgi

Closings



The following closings occurred In the Philadelphia Hub during the month of October 2002: Section 202- Laurel Commons, 21 units, Laurel, DE; Insured– Beacon Place, 64 units, Camden, NJ; Crafton Plaza, 104 units, Pittsburgh, PA.

New Neighborhood Network Center

A Neighborhood Network Center opened at Fox Township Manor, a 17 unit Section 202 project, located in Kersey, PA.

FY 2002 Goal Accomplishments

The Philadelphia Hub acknowledges the assistance of its clients in its FY 02 achievement of a #1 ranking in Section 202/811 closings– 33, a #1 in Neighborhood Network Center openings– 24, a #4 in Section 202/811 Initial Closings– 33, and a #6 in FHA Initial Endorsements– 54.

Reinstatement of MAP Lenders

The probation of GMAC and Malone Mortgage, two HUD-approved MAP lenders, have been lifted. The mortgagees are now reinstated in the program.

Affordable Housing Bill

Gov. James McGreevey (D-NJ), announced a plan to create affordable housing opportunities for 20,000 working families over the next four years in NJ. The cornerstone of his plan is to implement the Neighborhood Revitalization Tax Credit program and support passage of the Multifamily Housing Preservation and Receivership Bill and the Abandoned Properties Rehabilitation Bill. The Neighborhood Revitalization Tax Credit program will offer up to $10 million annually in state tax credits to businesses that invest in neighborhood revitalization plans spearheaded by community-based organizations. Sixty-percent of the tax credits will go to housing and economic development projects. The Multifamily Housing Preservation and Receivership Bill will make it easier to turn an at-risk rental property over to a receiver who will repair it as quality affordable housing.

Income Limits

Notice H 00-18, Admission and Occupancy Provisions of the Quality Housing and Work Responsibility Act of 1998 for Multifamily Housing Programs, issued Sept. 7, 2000, required tenant selection plans to include income targeting. Forty-percent of new residents must be at or below extremely low income. The 40% is determined by the previous year number of vacated units. As an example, if last year 10 units were vacated, 4 units during the current year must be rented to extremely low income applicants. The 2002 income limits can be found at the following website address:

Income Limits web site:
http://www.huduser.org/datasets/il.html

Low Income= 80% Area Median
Programs- 236, Rent Supp, RAP and Section 8
Very Low Income= 50% Area Median
Programs- PAC, PRAC and Section 8
Extremely Low Income= 30% Area Median

Multifamily & Healthcare Loan Sale 2002-2

An FHA Multifamily and Healthcare Loan Sale (No. 2002-2) is scheduled for December 2002. The following four Philadelphia Hub loans are being offered in the mortgage sale: Cigar Factory Apts., Norristown, PA- $1,393,159.69; and Sidney Square Convalescent Center, Pittsburgh, PA (3 loans)- $325,221.36, $1,053,672.53 and $6,683,599.95. All inquiries should be directed to the transaction specialist, Cushman and Wakefield, Inc., at (202) 467-0600 (fax; 202-293-9049). To obtain a bid package, a bidder must submit a complete Bidders Qualification statement and Confidentiality Agreement. The website for the loan sale is: www.hud.gov/offices/hsg/comp/asset/mfam/mhls.cfm.

FY 03 Interest Rates

The new interest rate for the Section 202 and Section 811 program is 5.375%. A Notice to this effect will be published in the near future.